

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Requirements for Digital Television Receiving	)	ET Docket No. 05-24
Capability	)	
	)	

**COMMENTS OF  
SHARP ELECTRONICS CORPORATION**

Adam Goldberg  
Director, Television Standards &  
Policy Development  
Sharp Laboratories of America, Inc.  
8605 Westwood Center Drive  
Suite 206  
Vienna, VA 22182  
703-556-4406

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Sharp Electronics Corporation, Inc. and Sharp Laboratories of America, Inc. (“SHARP”) respectfully submit these Comments in answer to the Commission’s Notice Of Proposed Rulemaking in the above-captioned proceeding.<sup>1</sup>

SHARP supports the Petition for Rulemaking of the Consumer Electronics Association (“CEA”) and the Consumer Electronics Retailers Coalition (“CERC”) requesting that the Commission accelerate to March 1, 2006, its requirement that all television receivers with screen sizes of 25 to 36 inches incorporate DTV tuners; as a substitute for the July 1, 2005 date at which 50 percent of such receivers were to have included DTV tuners (“CEA-CERC Petition”).<sup>2</sup>

**I.     INTRODUCTION**

SHARP is committed to supporting the digital transition and supports the CEA-CERC Petition. The greatest benefits to the public will accrue from an expeditious digital

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<sup>1</sup> *In the Matter of Requirements for Digital Television Receiving Capability*, ET Docket No. 05-24, Notice Of Proposed Rulemaking (rel. Feb. 14, 2005) (“NPRM”).

<sup>2</sup> *See* Petition of Consumer Electronics Association (“CEA”) and the Consumer Electronics Retailers Coalition (“CERC”), ET Docket No. 05-24, filed on November 5, 2004. The Commission issued a Notice of Proposed Rulemaking (“NPRM”) on February 14, 2005. *See In the Matter of Digital Television Tuner Requirements*, Notice of Proposed Rulemaking, ET Docket No. 05-24, FCC 05-17 (rel. Feb. 14, 2005) (“NPRM”).

transition, which will be best accomplished by elimination of the 50% tuner mandate and an accelerated 100% mandate.

## **II. ELIMINATION OF THE 50% REQUIREMENT AND ACCELERATION OF THE 100% REQUIREMENT YIELD SIGNIFICANT BENEFITS**

### **A. Elimination of Marketplace Confusion**

SHARP's business depends on consumers' abilities to make product purchase decisions by assessing which features are important to them, and on by weighing the costs of those features. Under a 50% mandate, consumers that do not find digital off-air reception a compelling feature worth its cost at retail (for whatever reason), will almost certainly choose a single-tuner device.

The 50% mandate creates a distinct stratum between products, namely those with or without an off-air digital tuner. Consumers shopping for televisions without knowledge about the digital transition or digital reception will certainly be confused by the cost difference above and below the stratum.

### **B. Elimination of Consumer Antipathy**

The 50% requirement will actually damage the digital transition by forcing marketplace introduction of some products that "do support" the transition and other otherwise identical or similar products which "do not support" the transition. Consumers will thus be able to clearly see the actual monetary cost of the transition to them – in the form of the price difference above/below the stratum discussed above. SHARP has supported and complied with the 50% requirement for larger sets. However, the existing requirement has a significantly lower impact on larger displays due to their much higher cost; conversely it must have a much larger impact on the cost of smaller displays..

Placed in this environment, consumers shopping for mid-sized televisions would actually be motivated to act in a manner antithetic to the transition. Many will choose lower-cost, single-tuner sets simply because they receive their programming via a cable or satellite set-top box. Manufacturers and retailers, no matter how much they support the DTV Transition, cannot afford to ignore these consumers – who indeed are likely to constitute the majority of their customers – because they must assume that their competitors will not ignore them.

### **III. ELIMINATION OF CONSUMER CONFUSION IN PRODUCT CHOICES**

Accelerating the 100% requirement will hasten the time at which consumers will have only one set of television receivers to choose from: televisions with dual (analog and digital) tuners. Consumers will be confused about their television choices as long as there are choices between analog tuner and dual-tuner sets, which require consumer understanding of the digital transition before the consumer sees value in the dual set.

SHARP agrees that the digital transition should happen, and that the sooner it happens, the better. With that in mind, constructing a retail environment where consumers of mid-sized televisions are simply encouraged to buy dual-tuner televisions that support the digital transition, will make the transition happen sooner, with less consumer confusion.

### **IV. 100% MANDATE BETTER FOR MARKETPLACE**

Eliminating the 50% step will allow television manufacturers to concentrate their manufacturing and marketing efforts on dual tuner sets. The largest volume of television sales are in the 25-37” segment, and it is vital to the digital transition that these sets (and the consumers shopping for them) are available and clearly marketed. No amount of labeling or point of purchase explanation will allow this message to be delivered clearly in a 50-50 environment.

## **V. 50% STEP IGNORES FREE-MARKET ECONOMICS**

The 50% mandate does not take into account the Free-Market effects of consumer and retailer choice: buyers purchasing habits depend both on the price of goods as well as the features of goods. The free market allows purchasers to buy products that appeal to their sense of price and value; manufacturers can not control our customers' price/value determinations.

### **A. Retailers buy what they can sell**

Retailers must make judgments as to what products will sell, and at what price points, when making purchasing and stocking choices. Retailers are continuously evaluating the sales performance of various products and are highly attuned to the price sensitivity of the buying public.

Any feature (costly or otherwise) which is not perceived by a retailer to be valued by consumers is unlikely to gain its support. The Commission's 50% mandate fails to appreciate this fact when it expects manufacturers to force our customers (the retailers) to purchase and offer for sale to the public devices which they would not otherwise traffic in.

#### **1. Marketplace Result of 50% Mandate**

The marketplace result of a 50% mandate is that retailers are presented a choice between dual and single tuner sets. Based on there lower price points, they will choose the single-tuner ones for the first part of the July '05 – July '06 period. At some point, in order to balance the sales between dual tuner and single tuner devices, a manufacturer is forced to stop selling single-tuner sets to retailers. Retailers are likely to wait for this pressure on manufacturers, in the hope that it will yield price reductions. So a 50% rule could actually *delay* the introduction of appreciable quantities of models with digital tuners beyond what the market would otherwise produce.

2. Granting the CEA / CERC Petition Yields Equivalent Marketplace without Confusion

The effect of granting the CEA / CERC petition in this matter would have no adverse effect during the first part of the July-July timeframe, but will eliminate uncertainty and confusion as the market moves, as expeditiously as possible, to a 100% rule. This is exactly the regulatory implementation suggested, without the uncertainty described herein.

**B. Consumers Buying Habits are affected by Price Elasticity of Demand**

Fundamentally, consumer demand is affected by price. Price increases established without corresponding value (or valued feature) increases will generally yield lower sales. During the 50% mandate period, the majority of consumers will thus be encouraged by economics to choose the single-tuner sets. Hence, this is what competitors will strive to supply ahead of their competition.<sup>3</sup>

**VI. TIME IS OF THE ESSENCE**

Generally, Consumer Electronics manufacturers need 18 months to respond to technology mandates. This is the time period necessary to facilitate a *change* – however, there is no guarantee that (apart from normal considerations of Moore’s Law, learning curve, etc.) this much lead time will make a product substantially *less expensive*. Manufacturers already know that they must serve the market for dual-tuner products, so have already taken this 18 month cycle into account. Therefore, they do *not* need additional lead time to meet the March 1, 2006 100% deadline proposed by the CEA / CERC petition. Conversely, they could not economically do anything to supply a greater volume of dual tuner products, at realistic prices, prior to

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<sup>3</sup> Cf. Wikipedia, the Free Encyclopedia, *Price Elasticity of Demand*, [http://en.wikipedia.org/wiki/Price\\_elasticity\\_of\\_demand](http://en.wikipedia.org/wiki/Price_elasticity_of_demand) (we contend that generally discretionary purchases like televisions have a large absolute value of price elasticity).

March 1, as this would require a shorter cycle. The uncertainty imposed by the 50% rule, however, lessens efficiency and ability to plan overall. Therefore, time is of these essence. SHARP, in aid of the DTV Transition, asks the Commission to act expeditiously to grant the petition.

## **VII. CONCLUSION**

In summary, SHARP is committed to supporting the digital transition and supports the petition. We believe that elimination of the 50% step and acceleration of the 100% step advances the transition, to the public's benefit.

Respectfully submitted,

**Sharp Electronics Corporation, Inc.**

*Adam Goldberg*

Adam Goldberg  
Director, Television Standards &  
Policy Development  
Sharp Laboratories of America, Inc.  
8605 Westwood Center Dr., Suite 206  
Vienna, VA 22182  
+1-703-556-4406

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